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PP RUEHAG RUEHAST RUEHBI RUEHCI RUEHDBU RUEHDF RUEHIK RUEHLH RUEHLN
RUEHLZ RUEHNEH RUEHPW RUEHROV RUEHSK RUEHSL RUEHSR RUEHVK RUEHYG
DE RUEHAH #1135/01 2510953

ZNR UUUUU ZZH

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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC 3420

INFO RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUEHAK/AMEMBASSY ANKARA 5633

RUEHBJ/AMEMBASSY BEIJING 3352

RUEHKO/AMEMBASSY TOKYO 3216

RUEHIT/AMCONSUL ISTANBUL 3876

RUCNDT/USMISSION USUN NEW YORK 1125

RHMCSUU/CDR USCENTCOM MACDILL AFB FL

RUEHVEN/USMISSION USOSCE 3870

RUEAAIA/CIA WASHDC

RHEFDIA/DIA WASHDC

RHEHNSC/NSC WASHDC

RUEKJCS/SECDEF WASHDC

RUEKJCS/JOINT STAFF WASHDC

UNCLAS SECTION 01 OF 02 ASHGABAT 001135

SENSITIVE

SIPDIS

STATE FOR SCA/CEN; EEB; NEA/IR
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR EHOUSE

E.O. 12958: N/A

TAGS: EPET PGOV EINV TX UP

SUBJECT: TURKMEN GAS TO UKRAINE; FORWARD TO THE PAST?

REF: ASHGABAT 462

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: A number of Turkmen media reports recently speculated that Ukrainian President Yushchenko will discuss the possibility of importing natural gas directly from Turkmenistan during his visit to the country scheduled for mid-September. The media reports cited Yushchenko's energy envoy Bohdan Sokolovskiy, who reportedly stated that the Ukrainian president will try to secure an alternative to Russian gas supplies. The reports come as Ukraine negotiates a reduction of gas imports from Russia due to reported plummeting demand for gas in Ukraine. Moreover, Gazprom could block Ukraine's chances for directly purchasing Turkmen gas by insisting that Ukraine not get its own deal with Turkmenistan. The two nations cooperated in the gas sector in the past, when Turkmenistan was the key gas supplier to Ukraine from 1999 - 2006.
END SUMMARY.

¶3. (SBU) Turkmenistan started selling its gas to Ukraine in 1999, shipping the gas through the Soviet-era Central Asia - Center gas pipeline which crossed Russian territory on its way to Ukraine. The price of gas then was 36 USD per thousand cubic meters (tcm) at the Turkmen border and was increased to 44 USD per tcm a couple years later. Ukraine paid only 50 percent of the sum in hard currency and the other 50 percent in Ukrainian goods and services. Turkmen officials labeled this system of payments as "the goods for gas" system. The arrangement soured when the Turkmen accused the Ukrainians of providing poor-quality and overpriced goods for gas, while failing to pay for Turkmen gas on time. Nearly every December, the Turkmen government threatened to cut gas supplies due to Ukraine's delayed payments, and nearly every December then Ukrainian President Kuchma would come to Ashgabat to negotiate another extension of payment. Because of Kuchma's frequent December visits, many Turkmen joked that they would know that winter was approaching when Kuchma was in Ashgabat. In 2005, Gazprom entered the scene, first through its gas-transit affiliated company RosUkrEnergo (RUE) that purchased Turkmen gas and transported it to

Ukraine. Later, Gazprom was able to leverage Russian government pressure to prevent Ukraine from directly importing any Turkmen gas.

¶4. (SBU) Although energy envoy Sokolovskiy did not provide exact dates for the visit, Yushchenko will most likely visit Turkmenistan from September 15-16 to attend the inauguration of a railway bridge over the Amudarya River, built by Ukrtransstroy, a Ukrainian state construction company. The bridge was part of the services that Ukraine provided within the "goods for gas" arrangement. Due to various reasons related to payment for Turkmen gas, the construction continued for about eight years and became a symbol of the inefficiency of "the goods for gas" arrangement. According to a Ministry of Oil and Gas official, Yushchenko and Berdimuhamedov will probably discuss issues related to the remaining Ukrainian debt for Turkmen gas supplied from 2000-2005, as well as other outstanding financial obligations between the two countries. As for gas supplies, the presidents will most likely confine themselves to a general declaration of mutual interest in developing cooperation in the energy sector.

¶5. (SBU) Technically, Turkmen gas can be delivered to Ukraine through the Central Asia - Center gas pipeline network. These pipelines have been almost empty since the April gas dispute between Gazprom and Turkmenistan (reftel) and will not be used at full capacity even if supplies to Russia resume, given that the volumes are expected to be much lower than they were in 2008 due to decreased demand. As a result, the Central Asia - Center pipeline network would have enough capacity to transport significant volumes of Turkmen gas to Ukraine if the Russians agreed to do so.

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¶6. (SBU) COMMENT: There are several issues that most likely will prevent Turkmenistan gas supplies from being sold directly to Ukraine. First, the Turkmen government does not seem to be interested in supplying gas to Ukraine and does not consider Ukraine a reliable partner, mostly due to the payment difficulties associated with directly supplying gas to Ukraine in the past. Moreover, it would be in Gazprom's interest to oppose any such deal, as the company would unlikely choose to yield the Ukrainian market to Turkmenistan in a period of low, global demand for gas. END COMMENT.

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